

AR18

NUMAC OIL & GAS LTD.

EIGHTH ANNUAL REPORT

DECEMBER 31st. **1970**

NUMAC OIL & GAS LTD

BOARD OF DIRECTORS

Ralph A. Bard Jr.	Executive	Chicago, Illinois
Lawrence L. Bell	Executive	Toronto, Ontario
Hadley Case	President Felmont Oil Corporation	New York, N.Y.
Alexander N. MacIver	Barrister & Solicitor	Edmonton, Alberta
William S. McGregor	President Numac Oil & Gas Ltd.	Edmonton, Alberta
Jack W. Robbins	Sr. Vice-President and General Counsel The Pitcairn Company	Jenkintown, Penn.
Marshal Stearns	President T. A. Richardson & Co. Limited	Toronto, Ontario
Lloyd F. Stevens	Executive Vice-President Allpak Products Limited	London, Ontario

OFFICERS

President and Managing Director	William S. McGregor
Vice-President, Engineering	Donald F. Baker
Vice-President, Exploration	Gunnar Haugrud
Secretary and Vice-President, Lands and Contracts	C. R. S. Montgomery
Treasurer	John T. Ferguson
Assistant Secretary	Alexander N. MacIver

HEAD OFFICE	11055 - 107th Street, Edmonton, Alberta
REGISTRAR AND TRANSFER AGENT	The Royal Trust Company Edmonton, Montreal, Toronto
AUDITORS	Winspear, Higgins, Stevenson and Doane Edmonton, Alberta
SOLICITORS	Jackson, Arlette and MacIver Edmonton, Alberta
LISTING	The Toronto Stock Exchange
ANNUAL MEETING	9:00 a.m., June 11, 1971 Macdonald Hotel, Edmonton

AR18

*Financial
Report
to
Shareholders*

THREE MONTHS ENDED

MARCH 31, 1970

NUMAC OIL & GAS LTD.

NUMAC OIL & GAS LTD.

**CONSOLIDATED STATEMENT OF INCOME
AND RETAINED EARNINGS
FOR THE THREE MONTHS ENDED MARCH 31, 1970**

(with comparative figures for 1969)

	1970	1969
INCOME		
Income from operations	\$ 631,890	\$ 567,885
Investment income	76,766	64,000
Supervision and sundry	12,107	14,000
	<u>720,763</u>	<u>645,885</u>
EXPENSES		
Operating expense	248,327	292,913
General and administrative	60,203	51,421
Interest expense	11,695	8,900
Minority interest	15,800	12,700
	<u>336,025</u>	<u>365,934</u>
CASH FLOW FROM OPERATIONS	384,738	279,951
Provision for depletion and depreciation	<u>157,568</u>	<u>89,700</u>
NET INCOME	227,170	190,251
Retained earnings January 1	<u>1,785,594</u>	<u>989,982</u>
RETAINED EARNINGS		
MARCH 31	<u>\$2,012,764</u>	<u>\$1,180,233</u>

Prepared Without Audit

**CONSOLIDATED STATEMENT OF SOURCE AND
APPLICATION OF FUNDS
FOR THE THREE MONTHS ENDED MARCH 31, 1970**

(with comparative figures for 1969)

	1970	1969
SOURCE OF FUNDS		
Gross income	\$ 720,763	\$ 645,885
Less: Operating, general and administrative interest and minority interest	<u>336,025</u>	<u>365,934</u>
Cash flow from operation	384,738	279,951
Proceeds from sale of interest in rights and leases	60,000	95,000
Minority interest share of income	15,800	12,700
Proceeds from issuance of shares	—	3,200
Sale of investments	—	51,360
	<u>460,538</u>	<u>442,211</u>
APPLICATION OF FUNDS		
Exploration, development and equipment	932,264	422,105
Purchase of investments	25,000	—
	<u>957,264</u>	<u>422,105</u>
Increase (decrease) in working capital	(496,726)	20,106
Working capital January 1st	<u>3,816,730</u>	<u>3,640,098</u>
WORKING CAPITAL		
MARCH 31	<u>\$3,320,004</u>	<u>\$3,660,204</u>

W. S. McGregor

Edmonton, Alberta
May 13, 1970

W. S. McGregor
President

CONSOLIDATED STATEMENT OF
SOURCE AND APPLICATION OF FUNDS
PERIOD ENDED JUNE 30, 1970

(with comparative figures for 1969)

	1970	1969
SOURCE OF FUNDS		
Income -----	\$1,560,929	\$1,199,068
Less: Operating, general and administrative, interest and minority interest ---	672,349	633,799
CASH FLOW FROM OPERATIONS -----	888,580	565,269
Issuance of capital stock	—	3,200
Sale of interest in rights and leases -----	60,000	95,000
Sale of investments -----	—	175,545
Minority interest share of income -----	30,281	28,755
	978,861	867,769
APPLICATION OF FUNDS		
Exploration, development and equipment -----	1,118,479	576,987
Purchase of investments	43,750	—
	1,162,229	576,987
INCREASE (DECREASE) IN WORKING CAPITAL -----	(183,368)	290,782
Working capital, January 1 -----	3,816,730	3,640,098
WORKING CAPITAL, June 30 -----	\$3,633,362	\$3,930,880

*Interim
Report
to
Shareholders*

SIX MONTHS ENDED
JUNE 30, 1970

NUMAC OIL & GAS LTD.

NUMAC OIL & GAS LTD.

TO THE SHAREHOLDERS:

Consolidated net income of \$561,834 and cash flow from operations of \$888,580 for the six months ended June 30, 1970 represent increases of 72% and 57% respectively over the amounts for the comparative period in 1969. Numac continued to be active in exploring new ventures incurring expenditures of \$1,118,479 during the period on exploration, development and equipment. The major areas of exploration activity are outlined as follows.

OIL & GAS EXPLORATION

ALBERTA

Numac has been involved in three widely separated exploration plays in Alberta which will be drilled in the next few months. A location is now being prepared for Amoco et al A.1 Phoenix N. 7-25-40-12, a 15,000 foot D3 test on the Ricinus-Strachan reef trend. Numac's interest in the test and the 12,800 acre Drilling Reservation is a modest 2½%. However, Numac owns gross royalties, which are convertible to a 19% participating interest (subject to a 6% net profits interest), in 10,880 lease acres directly offsetting the well.

Numac will also be participating in a 14,000 foot D3 reef test south of Grande Prairie, slated to commence in mid-August. The Company's interest in the test and 12,480 acre Drilling Reservation is 5%. Again however, Numac has a 20% net profits interest in 12,479 acres directly offsetting the test well.

A farmout was recently obtained on 4,800 lease acres northwest of the Utkuma Lake Granite Wash oilfield. A location will be selected as soon as available seismic data has been interpreted with a spud date for the initial test planned for this fall.

MACKENZIE DELTA, N.W.T.

Drilling activity in the Mackenzie Delta has been curtailed due to the difficult access problem during the summer months. Out of five rigs in the area, only one, on the Imperial Blow River YT E-47 location 30 miles southwest of Numac's nearest Permit, is drilling. The remaining rigs can be expected to move to new locations soon after freeze up in early November.

MINERAL EXPLORATION

NORTHWEST TERRITORIES

For the past two years, Numac has participated with Shield Resources Limited, a Yellowknife based company, in a mineral exploration program in the N.W.T. Numac's direct interest in the program has been 25% while in addition it owns 550,000 shares (24½%) of Shield's capital stock. During the current field season a major airborne geophysical survey was carried out on favourable Greenstone belts located north of Yellowknife using Questor Surveys Limited Input E.M. system. Numerous high priority conductors were located by the survey and in excess of 200 claims have been staked covering these anomalies. Detailed ground geophysics and geology will be carried out during the remainder of the season and plans are to commence a diamond drill program early in 1971.

Numac recently acquired a 10% interest in a newly formed company, Vestor Explorations Ltd., which has extensive holdings in the East Arm of Great Slave Lake. Vestor recently announced the discovery of significant uranium mineralization on this ground.

BRITISH COLUMBIA

Numac's mineral exploration has expanded into British Columbia with the initiation this summer of an extensive program operated by Bethlehem Copper Corporation Ltd. The budget for the initial year has been set at \$500,000 of which Numac's share is 20%.

NORTHERN SASKATCHEWAN

Numac is continuing its uranium exploration in Northern Saskatchewan in partnership with Imperial Oil Limited and Bow Valley Industries Limited. Strategic drilling in conjunction with a major geophysical survey was carried out during the past winter. Results were encouraging enough to warrant a major drilling program this coming winter.

CONSOLIDATED STATEMENT OF

INCOME AND RETAINED EARNINGS

FOR THE SIX MONTHS ENDED JUNE 30, 1970

(with comparative figures for 1969)

	1970	1969
INCOME		
Income from operations	\$1,353,000	\$1,030,017
Investment income	173,255	138,136
Supervision and sundry	34,674	30,915
	1,560,929	1,199,068
EXPENSES		
Operating	480,631	485,874
General and administrative	130,465	101,996
Interest expense	30,972	17,174
Minority interest	30,281	28,755
	672,349	633,799
CASH FLOW FROM OPERATIONS		
	888,580	565,269
Provision for depletion and depreciation	326,746	239,192
NET INCOME	\$ 561,834	\$ 326,077
CASH FLOW FROM OPERATIONS—per share		
	21.3¢	13.5¢
NET INCOME—per share	13.4¢	7.8¢

President

W. A. McInnes

July 30, 1970

Edmonton, Alberta

CONSOLIDATED STATEMENT OF
SOURCE AND APPLICATION OF FUNDS
FOR THE

NINE MONTHS ENDED SEPTEMBER 30, 1970

(with comparative figures for 1969)

SOURCE OF FUNDS	1970	1969
Gross Income -----	\$2,288,785	\$1,756,440
Less: Operating, general and administrative, interest and minority interest -----	981,962	914,304
CASH FLOW		
FROM OPERATIONS -----	1,306,823	842,136
Issuance of capital stock -----	—	3,200
Sale of interest in rights and leases -----	60,000	95,000
Sale of investments -----	—	187,842
Minority interest share of income -----	42,977	42,806
	<u>1,409,800</u>	<u>1,170,984</u>
APPLICATION OF FUNDS		
Exploration, development, land and equipment -----	1,377,978	935,736
Purchase of investments -----	91,353	—
Payment on long-term debt -----	60,000	60,000
	<u>1,529,331</u>	<u>995,736</u>
INCREASE (DECREASE) IN WORKING CAPITAL	(119,531)	175,248
Working capital, January 1 -----	3,816,730	3,640,098
WORKING CAPITAL, September 30 -----	<u>\$3,697,199</u>	<u>\$3,815,346</u>

*Financial
Report
to
Shareholders*

NINE MONTHS ENDED
SEPTEMBER 30, 1970

INCLUDING
SPECIAL REPORT ON
MINING EXPLORATION

NUMAC OIL & GAS LTD.

NUMAC OIL & GAS LTD.

CONSOLIDATED STATEMENT OF INCOME

FOR THE

NINE MONTHS ENDED SEPTEMBER 30, 1970

(with comparative figures for 1969)

	1970	1969
INCOME		
Income from operations	\$1,986,479	\$1,488,938
Investment income	253,636	209,922
Supervision and sundry	48,670	57,580
	<u>2,288,785</u>	<u>1,756,440</u>
EXPENSES		
Operating	712,909	662,481
General and administrative	196,659	179,307
Interest expense	29,417	29,710
Minority interest	42,977	42,806
	<u>981,962</u>	<u>914,304</u>
CASH FLOW FROM OPERATIONS	<u>1,306,823</u>	<u>842,136</u>
Provision for depletion and depreciation	500,114	370,547
NET INCOME	<u>\$ 806,709</u>	<u>\$ 471,589</u>
Cash flow from operations, per share	31.3¢	20.1¢
Net income, per share	19.3¢	11.3¢

SPECIAL REPORT TO THE SHAREHOLDERS ON MINING EXPLORATION

In the summer of 1965 the Directors of Numac Oil & Gas Ltd. approved a management recommendation whereby the Company would increase the scope of its natural resource activities by diversifying part of its funds into mining exploration. The first venture took place later that year when the Company filed on two Mineral Prospecting Permits in the Lake Athabasca area of Northern Saskatchewan. Since that time activities have expanded to include all of Western Canada, with particular attention to Northern Saskatchewan, the Yellowknife area of the Northwest Territories and southern interior of British Columbia. During the ensuing six months major drilling programs will be carried out in all of these areas on prospects which Numac considers to be particularly attractive.

Near Wollaston Lake in Northern Saskatchewan, Numac and associates, Imperial Oil Enterprises Ltd. and Bow Valley Industries Ltd., will drill holes on a grid pattern in an attempt to locate the source of a chain of uranium mineralized Athabasca sandstone boulders which have been traced for two miles to the end of a long narrow glacial lake. All the boulders are very high grade with assays up to 5.31% U_3O_8 (106 pounds per ton).

In the Beaulieu River area, 80 miles northeast of Yellowknife, Numac in partnership with Shield Resources Limited and another company have delineated a major geophysical anomaly which measures 3,500 feet long and up to 700 feet wide. Limited outcrops within the anomaly indicate massive sulphides with copper and zinc mineralization. The anomaly is one of numerous high priority conductors located by Questor Surveys Limited for Shield and Numac. Six, including the one mentioned, have been detailed by ground E. M. and Magnetometer surveys and the remainder will be detailed by mid-winter. Diamond drilling of this prospect will commence soon after freeze-up and it is anticipated that 15 to 20 additional anomalies will be drilled during the winter months.

Numac recently concluded an agreement with Vestor Exploration Ltd. whereby Numac will earn a 20% interest in 24 claims on which is located an outstanding uranium surface showing. The Company was also granted an option to earn a 20% interest in 18 additional claims on which significant uranium showings are present. These claims are located on North Simpson Island, 75 miles southeast of Yellowknife. Grab samples in pits and trenches on the main showings, designated as Zone 5, have revealed grades of 0.38% to 4.7% U_3O_8 . The showing is in a conglomerate bed of the Sosan formation and has a strike length in excess of 1,000 feet and width of 85 to 100 feet. A minimum 5,000 feet of diamond drilling will be conducted by Vestor and Numac commencing early in the new year.

South of Highland Valley in central British Columbia, Numac is participating 20% in an exploration syndicate headed by Bethlehem Copper Corporation Ltd. The syndicate has so far acquired 519 claims selected on the basis of preliminary investigation and is currently engaged in a systematic grid percussion drill program to check the claims for copper and molybdenum mineralization.

Numac's interest in each of the Wollaston Lake and Beaulieu River prospects is 25%. In addition, Numac owns approximately 22% of Shield's issued shares and 9% of Vestor.

This special report has been incorporated into Numac's Third Quarter Financial Report to bring shareholders up to date on significant developments in the Company's mining exploration ventures. We would caution that the described prospects not be considered proven as they are exploratory in nature. Further, we would stress that the majority of Numac's exploratory expenditure and effort will continue to be directed into the oil and gas industry.

November 6, 1970
Edmonton, Alberta

President

W. D. McInnes

NUMAC OIL & GAS LTD. EIGHTH ANNUAL REPORT 1970

FINANCIAL AND OPERATING HIGHLIGHTS

Drilling rig on location in Pinto area (13-19-69-8-W6)



Edmonton
NUMAC OIL & GAS 1ST HALF
NET 130 A SHR VS 80

JUNE 30 FIRST HALF NET 561 834 DLS VS
326 077 DLS - CASH FLOW 885 580 DLS OR 210
A SHR VS 633 799 DLS OR 140
-0-

Net Cash Flow available for reinvestment (after servicing long-term debt)	745,510	1,160,286	1,809,333
Net income before extraordinary items	504,297	725,040	1,184,311
Net Income	474,781	803,800	1,184,311
Working Capital	3,640,098	3,816,730	4,018,113
Capital Expenditures	2,315,234	1,367,452	1,619,712
Per Share*:			
Net Cash Flow from Operations	.23	.29	.45
Net Income before extraordinary items	.14	.17	.28
Net Income	.13	.19	.28
Common Shares Outstanding, December 31	4,177,566	4,179,566	4,181,066

* Based on weighted average of outstanding shares.

CONSOLIDATED STATEMENT OF INCOME

FOR THE

NINE MONTHS ENDED SEPTEMBER 30, 1970

(with comparative figures for 1969)

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Minority interest	42,977	42,806
	<u>981,962</u>	<u>914,304</u>
CASH FLOW FROM OPERATIONS	<u>1,306,823</u>	<u>842,136</u>
Provision for depletion and depreciation	500,114	370,547
NET INCOME	<u>\$ 806,709</u>	<u>\$ 471,589</u>
Cash flow from operations, per share	31.3¢	20.1¢
Net income, per share	19.3¢	11.3¢

SPECIAL REPORT ON MINIP

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In the Beaulieu River area, the Company has been exploring for uranium. The Beaulieu River area is located in the Northwest Territories, near Yellowknife. Numac in partnership with Shield Resources Limited and another company have delineated a major geophysical anomaly which measures 3,500 feet long and up to 700 feet wide. Limited outcrops within the anomaly indicate massive sulphides with copper and zinc mineralization. The anomaly is one of numerous high priority conductors located by Questor Surveys Limited for Shield and Numac. Six, including the one mentioned, have been detailed by ground E. M. and Magnetometer surveys and the remainder will be detailed by mid-winter. Diamond drilling of this prospect will commence soon after freeze-up and it is anticipated that 15 to 20 additional anomalies will be drilled during the winter months.

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South of Highland Valley in central British Columbia, Numac is participating 20% in an exploration syndicate headed by Bethlehem Copper Corporation Ltd. The syndicate has so far acquired 519 claims selected on the basis of preliminary investigation and is currently engaged in a systematic grid percussion drill program to check the claims for copper and molybdenum mineralization.

Numac's interest in each of the Wollaston Lake and Beaulieu River prospects is 25%. In addition, Numac owns approximately 22% of Shield's issued shares and 10% of Vestor.

This special report has been incorporated into Numac's Third Quarter Financial Report to bring shareholders up to date on significant developments in the Company's mining exploration ventures. We would caution that the described prospects not be considered proven as they are exploratory in nature. Further, we would stress that the majority of Numac's exploratory expenditure and effort will continue to be directed into the oil and gas industry.

President

November 6, 1970
Edmonton, Alberta

244-6185

FINANCIAL AND OPERATING HIGHLIGHTS

Drilling rig on location in Pinto area (13-19-69-8-W6)

	1968	1969	1970
Gross income	\$1,386,325	\$2,421,679	\$2,980,420
Net Cash Flow from Operations	805,510	1,220,286	1,869,333
Long-term debt	240,000	180,000	120,000
Net Cash Flow available for reinvestment (after servicing long-term debt)	745,510	1,160,286	1,809,333
Net income before extraordinary items	504,297	725,040	1,184,311
Net Income	474,781	803,800	1,184,311
Working Capital	3,640,098	3,816,730	4,018,113
Capital Expenditures	2,315,234	1,367,452	1,619,712
Per Share*:			
Net Cash Flow from Operations	.23	.29	.45
Net Income before extraordinary items	.14	.17	.28
Net Income	.13	.19	.28
Common Shares Outstanding, December 31	4,177,566	4,179,566	4,181,066



* Based on weighted average of outstanding shares.

REPORT OF THE DIRECTORS



TO THE SHAREHOLDERS

1970 was another year of record growth for your Company. Gross income increased 23% to \$2,980,420, net income, excluding extraordinary items, increased 63% to \$1,184,311 and cash flow of \$1,869,333 was an increase of 53%. The working capital at year end was \$4,018,113.

Exploration with associated companies along the frontal Foothills Belt of Alberta has resulted in an encouraging gas show and further drilling will continue in this area. Additional exploratory drilling will be carried out in north central Alberta and northeastern British Columbia. Present and future exploratory drilling by major oil companies in the Mackenzie Delta, if successful, could be important to your Company because of Numac's 20% carried interest in 270,000 acres in this region.

Hard mineral exploration has continued at an intensive rate in British Columbia, the Northwest Territories and Northern Saskatchewan, and these drilling programs will continue into 1971.

Recent price increases for Western Canadian oil and gas, together with substantial increases in exports of both to the United States, are not only encouraging to our industry but will reflect in benefits to Numac's shareholders in the immediate and long term future.

At year end the directors appointed and welcomed to the Board Jack W. Robbins to fill the vacancy created by the retirement of James F. Jungé. We would like to acknowledge the assistance given by Mr. Jungé to the direction of the Company while he was a member of the Board.

The consistent growth and forward progress of your Company is a direct result of the dedication and loyalty of the Company's small but efficient staff and the directors would like to take this opportunity of acknowledging this contribution.

On behalf of the Board,

A handwritten signature in dark ink, reading "W. S. McGregor". The signature is fluid and cursive, with the first name "W." and last name "McGregor" clearly legible.

W. S. MCGREGOR
President

March 18, 1971

SIGNIFICANT AREAS OF EXPLORATION ACTIVITY



FINANCIAL REVIEW

EARNINGS

Gross income for the year increased 23% to \$2,980,420 compared with \$2,421,679 for 1969.

Net income, excluding extraordinary items, increased 63% to \$1,184,311 from \$725,040. After considering the extraordinary income in 1969 the resulting net income showed a 47% increase in 1970.

CASH FLOW AVAILABLE FOR REINVESTMENT

Net cash flow from operations was up 53% over last year, totalling \$1,869,333 compared with \$1,220,286 in 1969. After deducting the \$60,000 required to service the long-term debt in each of 1970 and 1969, the cash flow available for reinvestment in 1970 was \$1,809,333 compared with \$1,160,286 in 1969, up 56%.

CAPITAL EXPENDITURES

Expenditures on lease acquisition, exploration, development and other capital assets totalled \$1,619,712 as compared to \$1,367,452 in 1969.

WORKING CAPITAL

The Company maintained a healthy working capital position of \$4,018,113 at December 31, 1970.

INCOME TAXES

The Company was not subject to income taxes in 1970 and has accumulated a tax credit as at December 31, 1970 of approximately \$3,690,000 to be applied against future taxable income.

INVESTMENTS IN OTHER COMPANIES

During 1970 the Company invested funds in two mining exploration companies active in the Yellowknife area of the Northwest Territories. The Company maintained its 22% interest in Shield Resources Limited and acquired approximately 9% of the outstanding shares of Vestor Explorations Ltd. (Further details — see Mining Exploration.)

RESUMÉ OF LAST FIVE YEARS OF OPERATIONS

During the five years ended December 31, 1970, Numac has sustained continued financial growth.

During this half decade the average of the annual growth rates are as follows:

Gross income	56%
Net cash flow from operations	47%
Net income	57%
Net annual oil production, after royalties	31%

The prime reasons attributable to these increases are:

- (a) Developing oil reserves in fields which have high reserve potential, such as Red Earth, Utikuma, Inga and Snipe Lake;
- (b) Increased allowables due to secondary recovery schemes and to a general increase in overall provincial production allowables;
- (c) The acquisition of an oilfield construction company in 1968 which provides a source of funds available for exploration activity; and
- (d) Maintaining a healthy working capital position enabling the Company to participate in exploratory opportunities. This working capital also enabled the Company to take advantage of the high interest rates prevailing during the last two years.

OUTLOOK

The future of the oil and gas business in Western Canada looks extremely promising. As the energy shortage in the United States progressively increases so must the price of oil and natural gas increase. Numac is continuing to allocate the bulk of its exploration budget to the areas of Alberta and northeast British Columbia. As the Company has a 20% net carried interest on its strategically located Mackenzie Delta properties, it is in the position of participating in the expensive northern Canada exploration without incurring any cost. Mining exploration activities and costs are increasing, but are still modest as the Company becomes more exposed to a number of outstanding mineral occurrences.

NUMAC OIL & GAS LTD. EIGHTH ANNUAL REPORT 1970

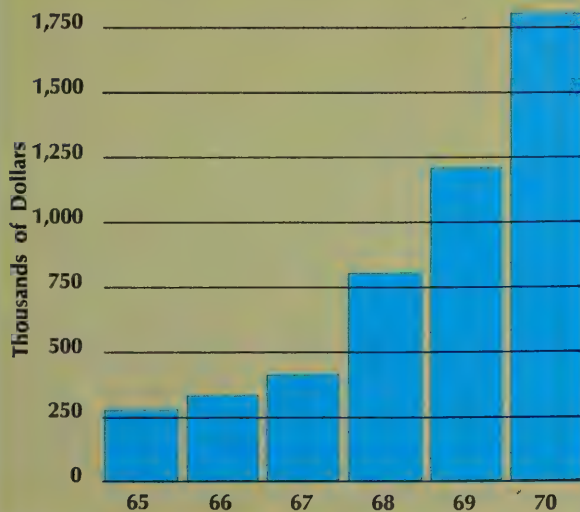


Informal discussion after 1970 Annual General Meeting.

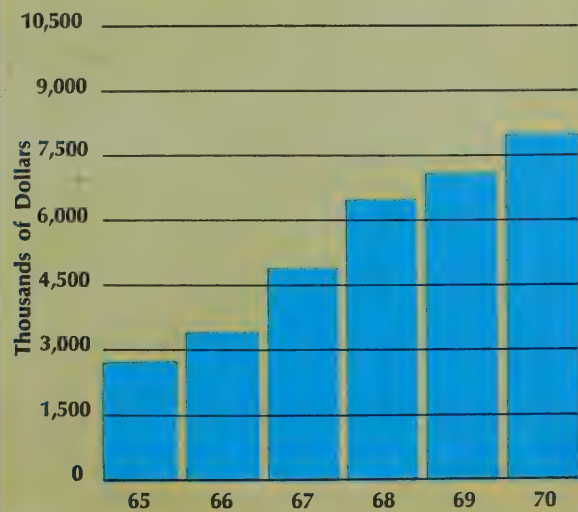


Company geologist explaining Alberta Foothills Front to high school students after 1970 Annual General Meeting.

NET CASH FLOW FROM OPERATIONS



FIXED ASSETS, NET



OIL AND GAS EXPLORATION AND DEVELOPMENT

Three productive wells and one dry hole were drilled on Company acreage during 1970. Two of these successes were gas wells drilled on carried interest acreage west of NANCY in northeastern British Columbia while a Granite Wash oil well was completed in the RED EARTH area of Alberta. The abandoned test was also located in Red Earth. As of December 31, 1970 Numac's petroleum and natural gas and other mineral holdings amounted to 1,172,877 gross acres (354,876 net, including net carried and net profits interests calculated on a net percentage basis).

Towards the end of the year, several farmout and participation agreements were finalized, resulting in a number of wells being either commenced and drilling at year end, or slated to spud in the early part of 1971. One of such arrangements was in the ANCONA area, northwest of the Strachan gas field, where the Company supplied 2½% of the costs of a test well that encountered interesting shows but was abandoned in January, 1971 after failing to find production in the reef.

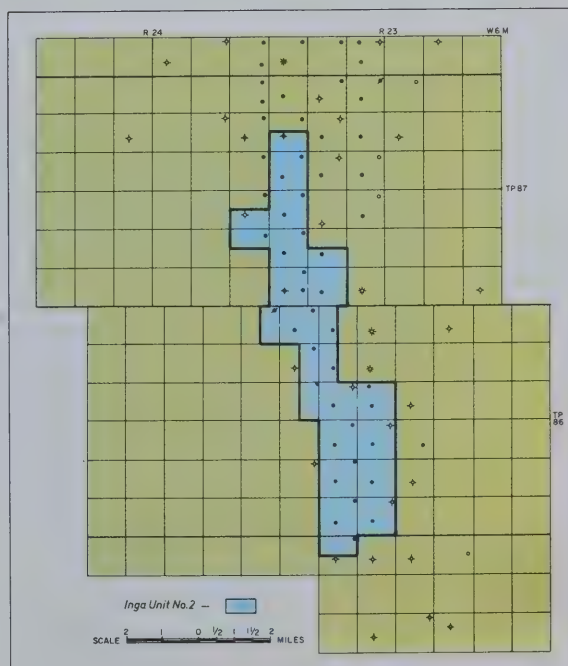
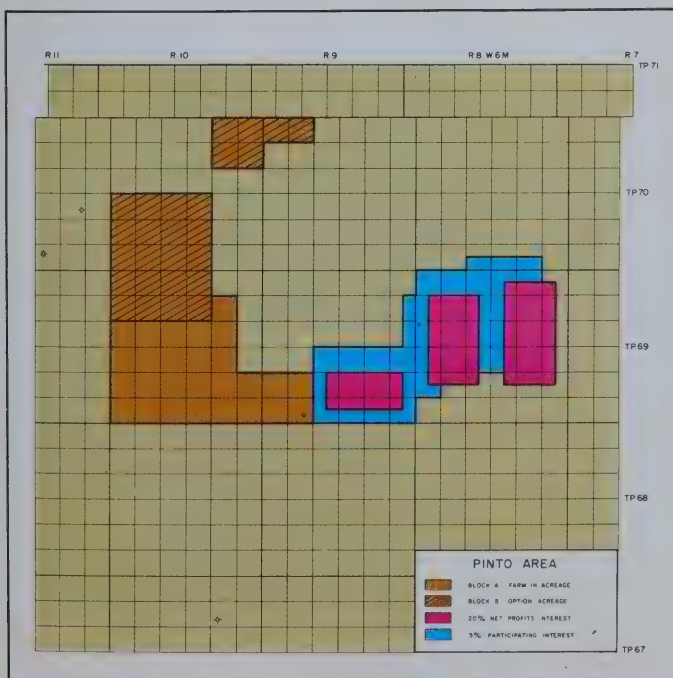
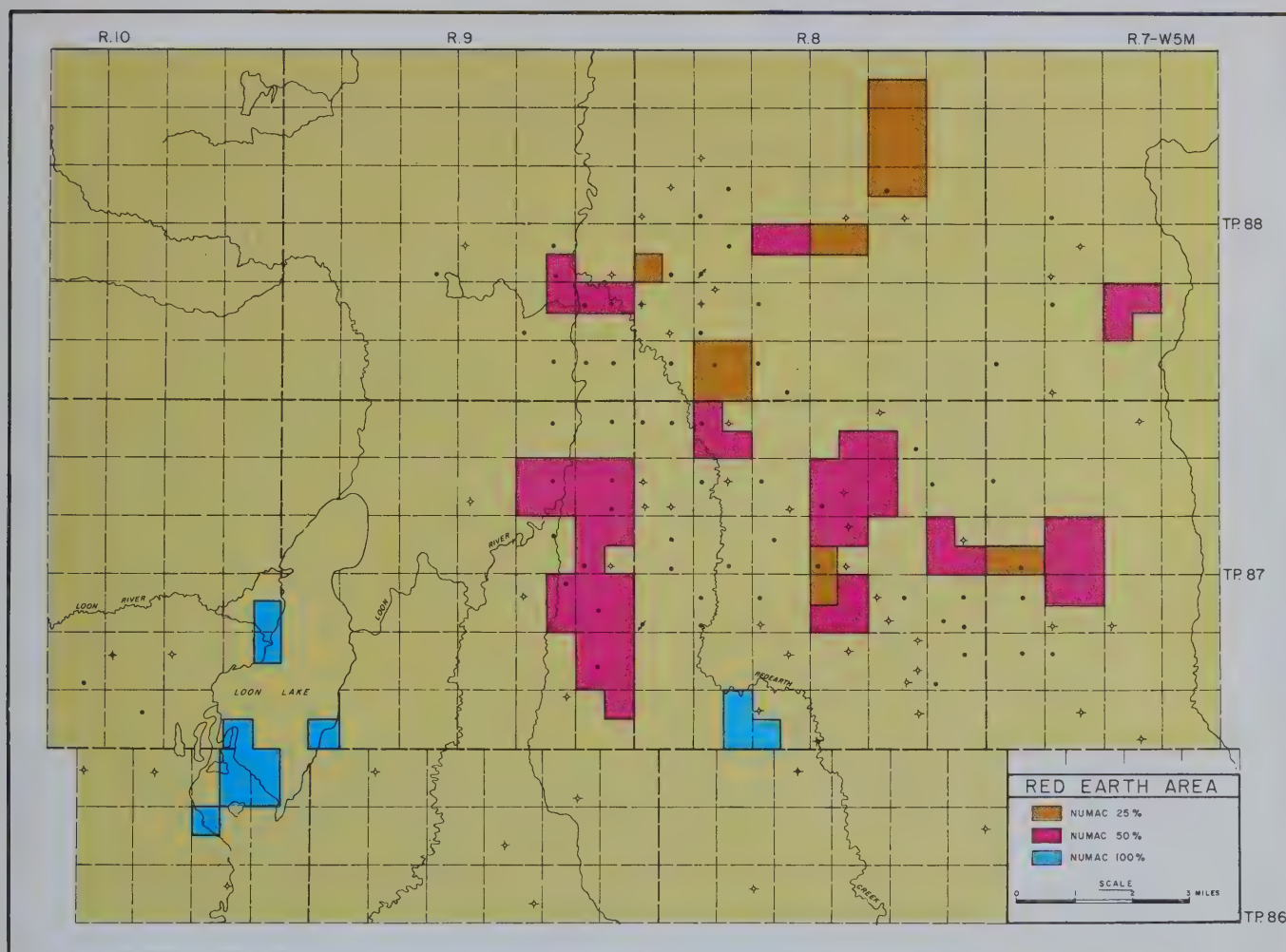
Drilling activity at Ancona



A second deep test well in which the Company's participating interest amounts to 5% was commenced in the early fall on a 12,480 acre Drilling Reservation in the PINTO, Alberta area, located northwest of the Gold Creek gas field. Subsequent to year end, the operator, Hudson's Bay Oil and Gas Company Limited, announced that it encountered encouraging but as yet untested gas shows in a zone which was not revealed. The well is being operated as a tight hole and thus details cannot be disclosed at this time. It is of considerable significance to Numac as it holds a 20% net profits interest in 12,479 acres of leases in the area, some of which immediately offset the well. At year end negotiations were being finalized whereby Numac will participate in a farmin-option of in excess of 30,000 acres in the vicinity of the aforementioned holdings. The first earning well on this acreage is planned for early 1971.

In the latter part of the year a farmin-option agreement was signed whereby Numac gained the right to participate in earning an interest in approximately 35 sections of Petroleum and Natural Gas leases in

NUMAC OIL & GAS LTD. EIGHTH ANNUAL REPORT 1970



Close to year end the Company began negotiations for a farmin-option of 11¾ sections of Petroleum and Natural Gas Leases east of ANTE CREEK (ASP-LUND), Alberta. It is expected an agreement will be completed early in 1971 and that a Woodbend test

The Company remains optimistic about its 20% carried interest in 270,242 Permit acres located in the Mackenzie Delta basin. Exploration (including seismic and drilling) activities near and pertinent to Numac holdings continue to increase in intensity as a result of Imperial Oil's Atkinson H-25 oil discovery as well as additional drilling and exploratory information obtained to date. Several major companies are active in the area and it is anticipated drilling will be commenced on the Company acreage during the 1971 - 1972 drilling season.



PRODUCTION

Photo Rolf Dahm



Hay River, N.W.T. port—distribution centre for barging oilfield equipment to Mackenzie Delta.

A significant increase in net oil production occurred during 1970, brought about mainly by increased market demand. Numac has been able to take advantage, particularly from the Red Earth-Utikuma area, of surges in demand caused by increases in exports to the United States Midwest.

The industry received an increase in wellhead price of crude on December 15, 1970. This increase amounted to approximately 25 cents per barrel and is the first such general increase in six years. Numac will benefit substantially from this turn of events as will show in the 1971 financial statements.

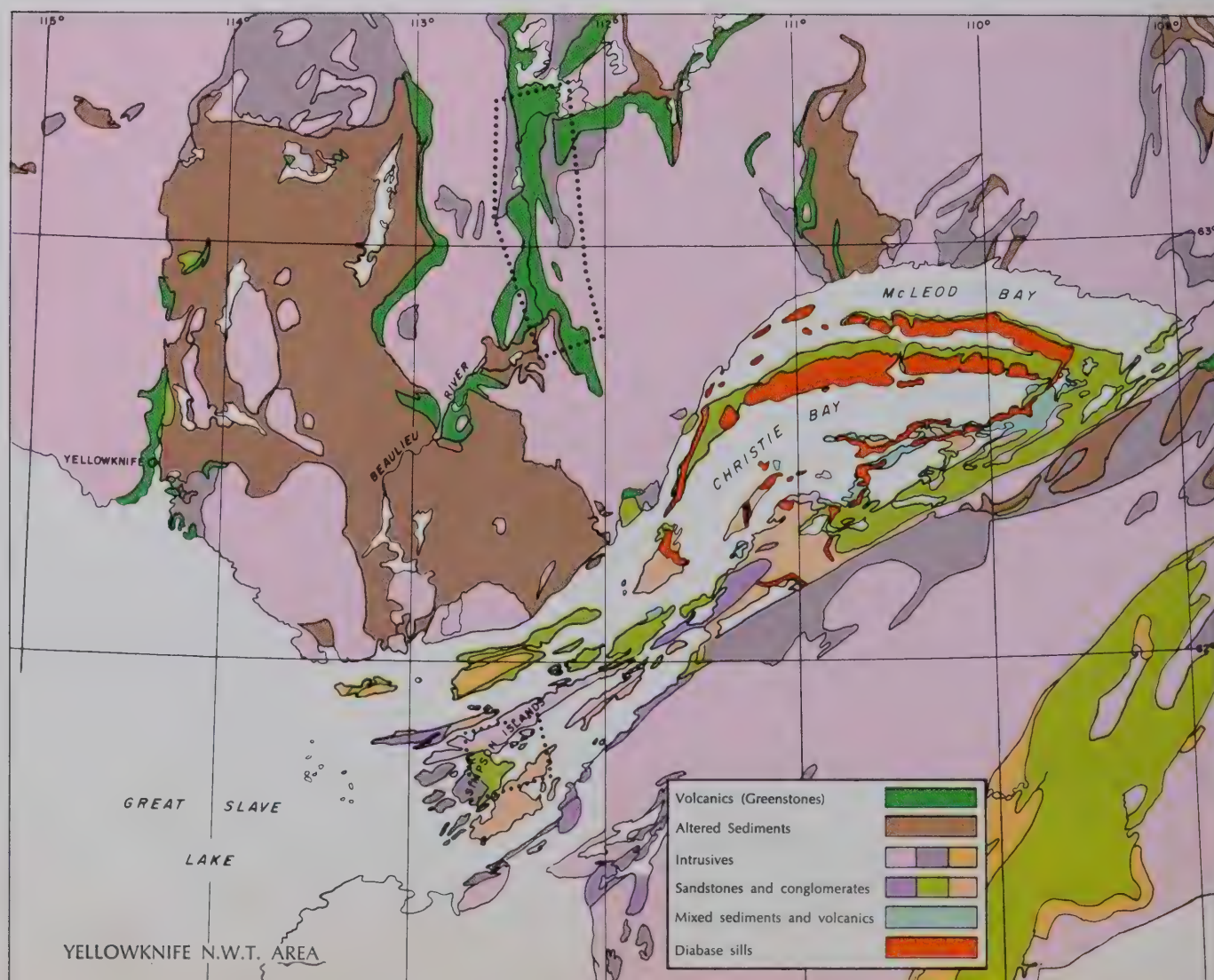
During the year, Numac along with other operators, negotiated terms for the formation of Unit operations in the INGA SOUTH field in northeast British Columbia. This agreement was reached during September and plans to waterflood the field are now well advanced. Pine Pass Oil & Gas Ltd., in which Numac holds a controlling interest, has a substantial interest in this Unit also. Satisfactory performance is being experienced in the operation of the several other Units in which Numac holds an interest.

MINING EXPLORATION

The Company is participating in current diamond drilling projects at WOLLASTON LAKE, Saskatchewan; NORTH SIMPSON ISLAND on Great Slave Lake, Northwest Territories; BEAULIEU RIVER, eighty miles northeast of Yellowknife, Northwest Territories; and at PRINCETON, British Columbia.

During 1970 Numac, in association with Shield Resources Limited and another company, carried out a major airborne geophysical survey on the favorable Greenstone Belt northeast of Yellowknife. A number of high priority conductors were located by the survey

and in excess of 250 claims have been staked. Diamond drilling has commenced on one anomaly and the results to date indicate extensive massive sulphides with copper and zinc mineralization of encouraging grades. Detailed ground geophysics and geology have been, and will continue to be, carried out during the winter and summer seasons of 1971. Numac has a 25% interest in the program and in addition owns approximately 22% of the outstanding shares of Shield Resources Limited.





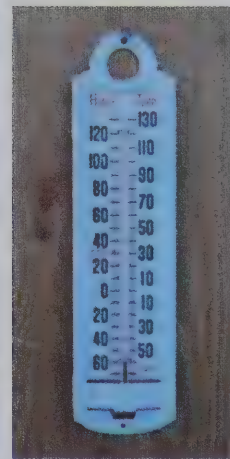
Drilling activity in Princeton-Merritt area, British Columbia.

Near Wollaston Lake, Numac and associates are drilling holes on a grid pattern in an attempt to locate the source of a chain of uranium mineralized Athabasca sandstone boulders which have been traced for two miles to the end of a long narrow glacial lake. All the boulders are very high grade with assays up to 5.31% U_3O_8 .

During the year, Numac entered into an agreement with Vestor Explorations Ltd. whereby Numac would earn a 20% interest in 24 claims on which is located an outstanding uranium surface showing. The Company was also granted an option to earn a 20% interest in 18 additional claims on which significant uranium showings are present. These claims are located on North Simpson Island, 75 miles southeast of Yellowknife. Drilling and other exploratory work will continue on these properties during the spring and summer seasons of 1971. In addition Numac acquired approximately 9% of the outstanding shares of Vestor Explorations Ltd.

In the Princeton-Merritt area of British Columbia, Numac is participating 20% in an exploration syndicate headed by Bethlehem Copper Corporation Ltd. Originally the syndicate acquired 519 claims selected

on the basis of preliminary investigation. In the course of drilling percussion holes for copper and molybdenum mineralization, several coal seams ranging up to 20 feet in thickness were encountered. A 6,070 acre coal license covering the area of interest was obtained and the syndicate is now engaged in diamond drilling to determine the extent and grade of coal.



Left: Diamond drill on location on Simpson Island, N.W.T.
Right: Beaulieu River Camp, 10:00 a.m. January 28, 1971 (-60° F)



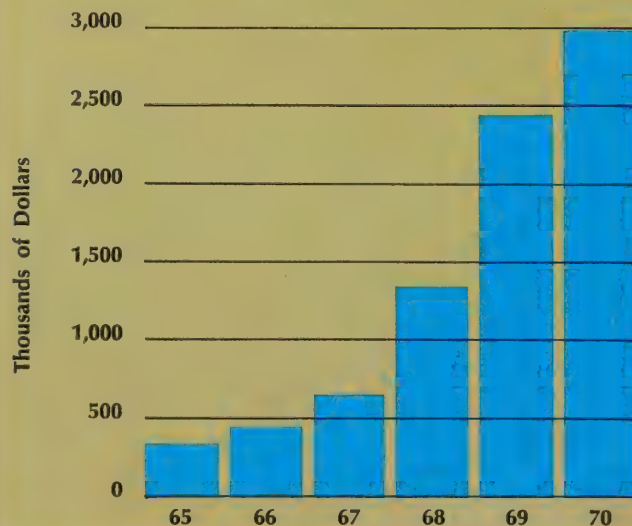
Trenching on islands in Great Slave Lake, N.W.T.

EIGHT YEAR STATISTICAL SUMMARY

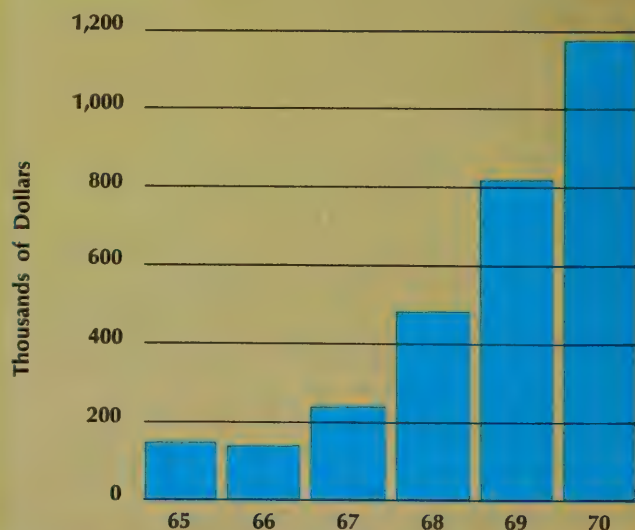
	1970
Gross Income, net after royalties	\$ 2,980,420
Operating Expense	\$ 827,147
General and Administrative	\$ 184,333
Net Cash Flow from Operations	\$ 1,869,333
— per share	\$.45
Long-term debt	\$ 120,000
Cash Flow available for re-investment (after deducting requirements for reduction of long-term debt)	\$ 1,809,333
Depletion and depreciation	\$ 685,022
Net Income, before extraordinary items	\$ 1,184,311
— per share	\$.28
Net Income	\$ 1,184,311
— per share	\$.28
Fixed Assets, net	\$ 7,960,880
Capital Expenditures	\$ 1,619,712
Shareholders' Equity	\$12,267,802
Working Capital	\$ 4,018,113
Common Shares Outstanding	4,181,066
Land Holdings	
Gross Acres	1,172,877
Net Acres	354,876

NOTE: The above Statistical Summary includes the operations of N
It also reflects retroactive adjustments due to the adopti

GROSS INCOME



NET INCOME

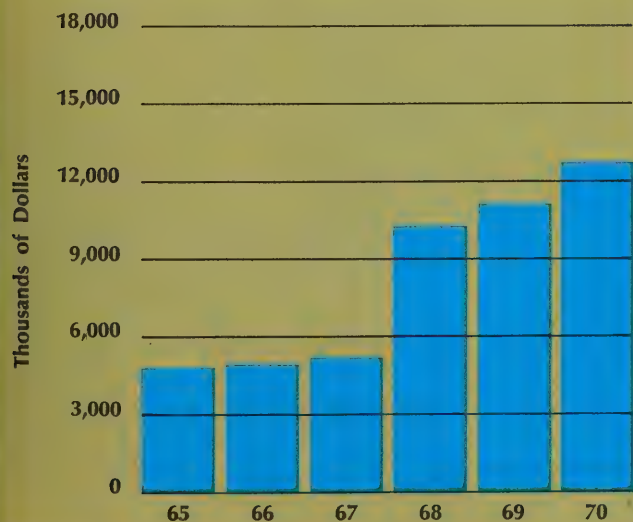


NUMAC OIL & GAS LTD. EIGHTH ANNUAL REPORT 1970

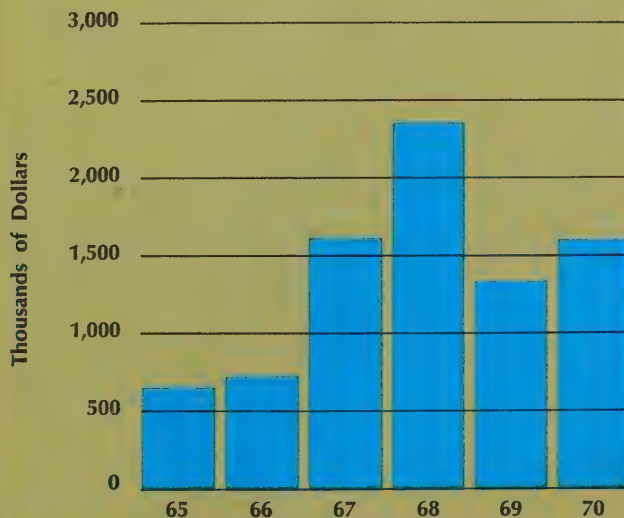
1969	1968	1967	1966	1965	1964	1963
2,421,679	1,386,325	653,135	485,741	353,488	281,352	104,154
932,427	385,789	93,146	57,254	34,611	38,221	6,908
158,404	112,670	82,876	60,946	46,928	49,837	31,143
1,220,286	805,510	432,954	340,074	288,200	190,476	66,103
.29	.23	.14	.11	.09	.06	.02
180,000	240,000	—	—	—	—	—
1,160,286	745,510	432,954	340,074	288,200	190,476	66,103
495,246	301,213	192,744	196,462	131,068	90,794	70,504
725,040	504,297	240,210	143,612	157,132	99,682	(4,401)
.17	.14	.07	.05	.05	.03	—
803,800	474,781	240,210	143,612	157,132	99,682	(4,401)
.19	.13	.07	.05	.05	.03	—
7,163,968	6,403,755	4,767,132	3,388,668	2,764,274	2,276,558	1,357,473
1,367,452	2,315,234	1,622,144	715,995	651,100	972,072	1,536,114
1,074,311	10,275,499	5,217,706	4,945,225	4,801,613	4,644,481	4,544,799
3,816,730	3,640,098	147,996	1,241,553	1,778,017	2,133,439	2,977,393
4,179,566	4,177,566	3,209,925	3,200,000	3,200,000	3,200,000	3,200,000
1,427,533	2,514,639	1,597,111	1,365,155	921,100	490,944	397,431
422,655	1,160,115	1,121,752	1,052,521	735,470	327,125	151,900

Oil & Gas Ltd. from date of incorporation, March 13th, 1963, and its subsidiary companies from date of acquisition.
 the full-cost method of accounting effective January 1st, 1968.

SHAREHOLDERS' EQUITY



CAPITAL EXPENDITURES



CONSOLIDATED STATEMENT OF INCOME

Years ended December 31, 1970 and 1969

INCOME

	1970	1969
Gross operating income	\$ 2,568,811	\$ 2,055,951
Investment income	350,681	289,428
Supervision and sundry	60,928	76,300
	<u>2,980,420</u>	<u>2,421,679</u>

EXPENSES

Operating expense	827,147	932,427
General and administrative expense	184,333	158,404
Interest expense	45,680	48,227
Minority interest	53,927	62,335
	<u>1,111,087</u>	<u>1,201,393</u>

NET FUNDS FROM OPERATIONS	1,869,333	1,220,286
Provision for depletion and depreciation	685,022	495,246

NET INCOME BEFORE EXTRAORDINARY ITEMS	1,184,311	725,040
Non-recurring income	—	78,760

NET INCOME (Note 2)	<u>\$ 1,184,311</u>	<u>\$ 803,800</u>
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CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Years ended December 31, 1970 and 1969

RETAINED EARNINGS, beginning of year	\$ 1,785,594	\$ 989,982
Add: Net income	1,184,311	803,800
	<u>2,969,905</u>	<u>1,793,782</u>
Deduct: Write-off of commission on sale of shares	—	8,188
RETAINED EARNINGS, end of year	<u>\$ 2,969,905</u>	<u>\$ 1,785,594</u>

EARNINGS PER SHARE

(Based on weighted average of outstanding shares)

NET INCOME BEFORE EXTRAORDINARY ITEMS	28c	17c
Extraordinary items	—	2c
NET INCOME	<u>28c</u>	<u>19c</u>

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Years ended December 31, 1970 and 1969

SOURCE OF FUNDS

	1970	1969
Income	\$ 2,980,420	\$ 2,421,679
Less: Operating, general and administrative, interest and minority interest	1,111,087	1,201,393
Net funds from operations	1,869,333	1,220,286
Issuance of capital stock	9,180	3,200
Sale of interest in rights and leases	102,860	186,261
Sale of investments	—	202,809
Proceeds from sale of equipment	33,067	—
	<u>2,014,440</u>	<u>1,612,556</u>

APPLICATION OF FUNDS

Exploration, development and equipment	1,619,712	1,367,452
Decrease in minority interest	9,073	8,472
Repayment of long term debt	60,000	60,000
Purchase of investments	124,272	—
	<u>1,813,057</u>	<u>1,435,924</u>

INCREASE IN WORKING CAPITAL	201,383	176,632
Working capital, beginning of year	3,816,730	3,640,098
WORKING CAPITAL, end of year	<u>\$ 4,018,113</u>	<u>\$ 3,816,730</u>

The accompanying notes are an integral part of the financial statements.

AUDITORS' REPORT

To the Shareholders of
Numac Oil & Gas Ltd.

We have examined the consolidated balance sheet of Numac Oil & Gas Ltd. and subsidiary companies as at December 31, 1970 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1970 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

EDMONTON, Alberta
February 19, 1971.

WINSPEAR, HIGGINS, STEVENSON AND DOANE
Chartered Accountants.

CONSOLIDATED BALANCE SHEET

NUMAC O
AND SUBSID

ASSETS

	1970	1969
CURRENT ASSETS		
Cash	\$ 26,078	\$ 79,876
Marketable securities, at cost (market value \$2,186,075)	2,093,625	—
Short term notes, at cost	2,051,625	3,854,611
Accounts receivable	663,566	744,339
Prepays and deposits	35,985	52,589
	<u>4,870,879</u>	<u>4,731,415</u>
INVESTMENTS, at cost, no quoted market value	274,183	148,060
FIXED ASSETS, at cost		
Lands, leases and well costs	7,702,646	7,171,745
Production and other equipment	2,375,568	1,453,347
	<u>10,078,214</u>	<u>8,625,092</u>
Less: Accumulated depletion and depreciation	2,117,334	1,461,124
	<u>7,960,880</u>	<u>7,163,968</u>
UNALLOCATED COSTS ON CONSOLIDATION (Note 1)	148,400	148,400
	<u>\$13,254,342</u>	<u>\$12,191,843</u>

The accompanying notes are an integral part of the financial statements.

LIABILITIES

CURRENT LIABILITIES

	1970	1969
Bank loan, demand (Note 3)	\$ 500,000	\$ 450,000
Accounts payable and accruals	292,766	404,685
Long term debt due within one year	60,000	60,000
	<hr/> 852,766	<hr/> 914,685

LONG TERM DEBT	120,000	180,000
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MINORITY INTEREST IN SUBSIDIARY COMPANY	13,774	22,847
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	<hr/> 986,540	<hr/> 1,117,532
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SHAREHOLDERS' EQUITY

SHARE CAPITAL (Note 4)

Authorized—
5,000,000 shares without nominal or par value

Issued—
4,181,066 shares
(4,179,566 shares—1969)

	9,297,897	9,288,717
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RETAINED EARNINGS

	2,969,905	1,785,594
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	<hr/> 12,267,802	<hr/> 11,074,311
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	<hr/> <hr/> \$13,254,342	<hr/> <hr/> \$12,191,843
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ON BEHALF OF THE BOARD

W. S. Mc Gregor Director
Ch. H. MacLean Director

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — ACCOUNTING PRINCIPLES

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. The excess of the cost of shares of subsidiaries over their net book value has been allocated, except where not practicable, to the appropriate assets and amortized on the straight-line basis over five years.

The companies follow the full-cost method of accounting wherein all costs relative to the exploration for and development of oil and gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical expenses, carrying charges of non-producing properties, costs of drilling both productive and non-productive wells, and overhead directly associated with exploration and development. These costs are depleted on the composite unit-of-production method based on estimated proven developed reserves of oil and gas. Depreciation of equipment is provided for on the straight-line basis at rates which amortize the cost over their estimated useful life.

All acquisition and exploration costs of mining properties are treated on a project basis wherein costs are not charged to expense unless the whole project is abandoned. Revenue from farm-out arrangements is not taken into income unless the proceeds exceed the total project cost in which case the excess is recorded as non-recurring income.

NOTE 2 — INCOME TAXES

For income tax purposes, the companies are entitled to claim drilling, exploration and lease acquisition costs and capital cost allowance (depreciation) in amounts which may exceed the related depletion and depreciation provisions reflected in their accounts. As a result of claiming excess drilling, exploration and lease acquisition costs, no income taxes are payable for the year. Expenditures remain to be carried forward and applied against future taxable income in the amount of \$3,690,000 (drilling, exploration and lease acquisition costs \$2,680,000; undepreciated capital cost \$1,010,000).

The companies do not believe that it is appropriate to provide for income taxes deferred as a result of claims for drilling, exploration and lease acquisition costs. While this view conforms with general practice in the oil and gas industry, and is accepted by accounting authorities in the United States, it differs from the tax allocation basis of accounting recommended by the Accounting and Auditing Research Committee of the Canadian Institute of Chartered Accountants under which the income tax provision is based on the income reported in the accounts.

If the tax allocation basis had been followed for all timing differences between taxable income and reported income, deferred income taxes of \$530,000 (\$240,000 in 1969) would have been provided and net income for the year would have been reduced accordingly. The accumulated income tax reductions relating to all timing differences in the current and prior years amount to approximately \$1,090,000 at December 31, 1970.

NOTE 3 — BANK LOAN

\$50,000 of the bank loan is secured by certain marketable securities. The remaining \$450,000 represents a bank loan of a subsidiary company secured by a guarantee by Numac and another non-affiliated company.

NOTE 4 — SHARE CAPITAL

During the year an employee exercised his option under an employee stock option plan dated November 10, 1969, to purchase 1,500 shares of the capital stock of the Company at \$6.12 per share.

As at December 31, 1970, 66,000 shares of the capital stock of the Company were reserved for option to senior officers and key employees at prices ranging from \$5.00 to \$6.48 per share. These options are exercisable cumulatively as to 20% per year of the total number granted commencing one year after date of option, and all expire on or before November 10, 1974.

NOTE 5 — OUTSTANDING LITIGATION

A decision was rendered in the Supreme Court of British Columbia on August 5, 1968 in favour of a consolidated subsidiary and another company in their action against two other oil and gas companies. The amount of the judgment is estimated to be substantial but due to the fact that it is now under appeal no provision for recovery has been made in the accounts.

NOTE 6 — REMUNERATION OF SENIOR OFFICERS AND DIRECTORS

In accordance with the provisions of the Companies Act (Alberta), it is reported that the remuneration paid to the senior officers of the Company and its subsidiaries amounted to \$134,480 (1969 — \$102,539) and Directors' fees amounted to \$1,522 (1969 — \$1,441).

